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Mr. J. W. Kettle

Date: February 1, 1955

From: L. F. Cummings

Subject: Montrose Chemical
Corporation of California

Your letter of November 15, 1954 and our subsequent discussion in New York in December set up an assignment to review the inter-related activities of Montrose Chemical Corporation of California and Stauffer Chemical Company and the charges arising from the various transactions. The objective that you outlined for me was the eventual presentation of a report which would give an analysis of studies made and list recommendations as to future charges -- my data was to be sufficiently detailed so as to support and substantiate the conclusions reached.

The procedure followed in making up this report was to get a first-hand look at the activities at both Henderson and Los Angeles by personal visit of myself and Elmer Carlson in January. In addition, a review of agreements and correspondence in the San Francisco office was included in the survey. In this latter connection it must be stipulated that there could be documents on file elsewhere that I am not aware of -- this is, however, more of a possibility than a real probability except perhaps in the matter of some correspondence.

Our attached report is divided into five main sections.

1. Summary and Recommendations
2. Matter of Contracts and Various Letter Agreements
3. Section Relating to Henderson
4. Section Relating to Torrance
5. Section Relating to Los Angeles General Office

With report on file with you it would be my understanding that there will now be an interim period dedicated to review by our people and discussion with Montrose Chemical Company of New Jersey. Therefore, in the meantime we will continue to use the old basis for prorated charges and hold in abeyance the several additional direct charges referred to in our report.

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1. Summary and Recommendations

In general, we find the Montrose operations at Torrance and Henderson are separate and distinct from Stauffer processing plants.

For example, at Torrance at the present time Stauffer has no activities except a research laboratory which is some distance from the facilities owned or used by Montrose. These installations consist of the processing plant, several warehouses, a shop, and an office building they rent from us.

By the same token, at Henderson the Montrose processing plant is on property apart from that occupied by Stauffer plants. Here the matter of inter-related plant activity develops through the Montrose use of some administrative and clerical help, occasional maintenance crew work, use of our mobile equipment, use of certain common facilities, such as laboratory, etc.

As to the Los Angeles Wilshire office, there is some actual segregation due to Montrose having some of their own equipment and the use of a separate accountant. The other activities at that location, however, do require allocation of charges for such office services as sales, purchasing, traffic, labor relations, billing and mail. Individual yardsticks have been set up to measure these charges. Schedule 4 gives the detailed analysis.

It is our considered opinion that no general factor formula or group of formulas could be advantageously used and that the methods for allocating individual charges as shown in our detailed schedules 1 and 4 give equitable results.

At the Accounting Staff Meeting in New York in December, the subject of charges for salaries and overhead of persons assigned full time work for other companies was discussed. A rate for overhead of 87% of labor charges was mentioned but it was decided the rates must be approved by management before release. This has not been done to our knowledge.

We believe that such an overall percentage would not be applicable in the Montrose situation as we are not furnishing employees on a temporary basis but Stauffer personnel are continually performing part-time services for Montrose. Accordingly, we have not made computations using this procedure.

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1. Summary and Recommendations --- Page 2

In summary, we recommend the following:

1. At Henderson, change of prorated amounts as shown in Schedule 1, this being a revision from present charge of \$3,360.00 to a new monthly total charge of \$4,539.00.
2. At Los Angeles Wilshire, change of the monthly charge in total from \$831.00 to \$1,826.00.
3. We further recommend immediate retroactive charge for the taxes on improvements at Torrance in amount of \$4,853.74. In addition, of course, these taxes should be billed currently from now on to Montrose. Furthermore, there should be decision as to possible additional tax mentioned in Schedule 3.
4. We also suggest that a definite policy be inaugurated whereby the indirect charges and, in some instances, the direct charges should be reviewed semiannually on January 1st and July 1st of each year. In discussing this at the various locations, the consensus of opinion was that this frequency was adequate.

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2. Matter of Contracts and Various Letter Agreements

During the course of this part of the survey we reviewed the original agreements setting up the Montrose Chemical Corporation of California in 1946 and the supplements thereto. We also looked over the main sales DDT agreements between Montrose California and Stauffer, the lease agreements between Stauffer and Montrose of California for land at Henderson and at Torrance, and the various other agreements between the two companies on such subjects as Muriatic Acid, Spent Sulphuric Acid, Benzol, 2,4-D and Chlorine Cell Gas. The purpose of this investigation was to list in our report stipulations if any as to bases for charges covering administration and services from the Stauffer side.

Our findings are as follows:

- a. The charges for commodities handled between the two companies such as those mentioned above are matters of negotiation from time to time between the two companies -- they are covered by either formal contracts or letter agreements and the various departments of Stauffer watch these as a general part of procedure. Prices and other arrangements are under adequate control and, therefore, we need not make further reference to this phase of the operation.
- b. There is another group of charges which by their nature are self-explanatory and are followed up at each location as a matter of routine procedure. These we classify as direct charges and we refer to them in the following Sections 2, 3 and 4 of our report.
- c. We purposely mentioned land rental charges separately because there are some points that need attention. In the sections of the report on Henderson and on Torrance we refer to the leases and mention the points that need further follow up and decision.
- d. As to prorated charges we find that at both Henderson and Los Angeles the formulas or other methods of allocation have been covered by letter agreements from time to time. We purposely classify these items as

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The report is the evidence that at the inception of the program, when the first plan for allocating charges was considered. Therefore, as the operations grew the formulas for such charges were set up at intervals by letter agreements. Our investigation included the review of current letter agreements and we make comments on the following pages.

On the matter of management fees we have no correspondence or other file data. We understand this is a high-level subject discussed in New York at the close of each fiscal year.

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3. Section Relating to Henderson

The ~~inter-related~~ ~~expenses~~ of Montrose and Nevada fall into two categories, one, the ~~matter~~ of direct charges, and the other, a group of indirect or prorated charges.

The direct charges ~~which appear to be in order~~ are listed below.

1. Clothing Allowance -- Paid directly to employees. The basis is \$5.20 per shift per man ~~in accordance with union terms.~~
2. Gas and Oil -- Purchased for ~~their~~ truck on ~~company~~ card. ~~We raise the question as to why a separate card could not be obtained for Montrose.~~
3. Hydrogen -- Based on cost of fuel oil as computed by plant engineers.
4. Maintenance Material -- Directly purchased for Montrose and charged at the month end from vendors' invoices.
5. Meals -- Computed by the working foreman. Each man is allowed \$1.50 for a meal if he works more than 2 hours overtime ~~this is standard practice at the Henderson plant.~~
6. Plant Payroll -- There are 44 men paid by Stauffer who regularly and completely work at the Montrose plant. All payroll taxes and related insurance on these specific men are also charged to Montrose.
7. Power -- Cost based on actual usage per separate meter readings. ~~Power is Colorado River Commission meter.~~
8. Railroad Car Handling -- As charged by Basic Management, Inc. invoice based on the number of loaded cars in and out of the plant.

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3. Section Relating to Henderson --- Page 2

- 1. Rental Land -- \$60.00 per month as per lease dated January 2, 1952. The lease covers 3 parcels of land totaling 9.22 acres ~~more or less~~ as described in the agreement. The lease runs to 4/14/57 with renewal option for additional ~~five years if exercised one year before that date.~~
- 2. Steam -- Plant engineers readings. Billed at estimated monthly cost adjusted to actual in the month following.
- 3. Stores -- Charged at cost plus freight but with no provision for handling expenses. (See indirect charges section).
- 4. Telegraph -- Identifiable charges made to Montrose by our clerks from monthly bill.
- 5. Telephone -- Stauffer pays all telephone bills, charging Montrose for identifiable items.
- 6. Telephone Exchange -- Based on number of phones actually in Montrose use.
- 7. Teletype -- Percentage billing by our clerks based on usage.
- 8. Travel -- Actual expenses of Montrose personnel.
- 9. Water -- Charged by Meter reading at B. M. I. price.
- ~~Under this section we have one additional item that we record for the future since it may well be too small to evaluate at present. The lease of January 2, 1952, covers parcel A--1.175 acres; parcel B--8.020 acres and parcel C--.5323 acres. In discussion at Henderson we find that Montrose now occupies two small additional parts of the plant site, identified as parcel D for new office--.0280 acres, and parcel E for synthetic HCL plant--.0198 acres.~~

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3. Section Relating to Henderson --- Page 4

For detailed analysis of these indirect charges, please refer to supporting schedule No. 1 at the close of this report.

~~Furthermore, it should be emphasized here that our recommendations in connection with both direct and indirect charges have been discussed with and have the full approval of the Henderson plant management.~~

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4 Section Relating to Torrance

At this location Montrose has an investment in processing plant for making technical DDT. In addition Montrose rents warehouse and office space as well as a portion of the real estate acreage we own. Stauffer's activity is only that in connection with research laboratory program -- the facilities are separate and apart from those of Montrose. Therefore charges are confined to those of a direct nature for rentals and those arising from certain joint use of utilities. Monthly charges are made for use of telephones, whereas the water is from our own well and is billed to Montrose on a quantity consumed basis.

The leases at Torrance call for Montrose paying a total amount of \$890.00 per month. The general description including \$600.00 per original lease of August 16, 1946, \$200.00 for additional ground area and use of machine shop and \$90.00 for pipe bending shop. Generally, we find the agreements in order but there is one item that needs careful emphasis in this survey of the location and we present the facts herewith for further review and positive action.

In part, the lease executed August 16, 1946 states "Lessor agrees to pay all taxes on real and personal property except that lessee shall, and agrees to, pay all taxes on any and all improvements installed, erected and made by it on the leased premises." It has been established that on the basis of this section, Stauffer has paid taxes for improvements of Montrose as shown on schedule No. 2 at the close of this report. This has been discussed with the Montrose plant manager and the accountant for Montrose. The total additional charge for the taxable year 1947 through 1954 is an amount of \$4,853.74.

There is also attached at the close of this report schedule No. 3 setting forth legal opinion with respect to additional charges. This matter has been discussed so far only between Macdougall and Weiss from a legal standpoint and not with Montrose people.

Another subject of comment is the pending matter of a lease on the remaining half of the office building at Torrance. Montrose presently occupying only one-half of said building. This has become a subject of negotiation since Stauffer vacated the other half in November 1954. For purposes of record it should be mentioned here that the negotiations contemplate a \$100.00 increase in monthly rental and the matter is scheduled to be completed in due course.

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Report on Relocation of Los Angeles General Office

The direct charges at the Los Angeles office are as follows:

Planting charges -- The plant is now being moved to an address at Montrose, California, from 30 to 40 men at various times during the move. The Los Angeles office and its charges are cleared of Montrose without need for estimates.

Salaries Payroll -- There are approximately 20 salaried employees, most of plant administrative help, chemical laboratory technicians, along with some clerical workers at the plant and the one accountant in the Los Angeles office. These are all classified as Stauffer employees and paid from San Francisco with their salaries and benefits charged out to Montrose.

With respect to indirect charges at the Los Angeles office we adopt the same method as for Henderson by presenting below a summary of the items with two columns of figures, one showing recommended charges for the future and the other the charges on the bases presently in effect. Also for detailed analysis of these charges we refer to supporting schedule No. 4 at the close of this report. Again, these recommended charges for the future have been discussed with office administration in Los Angeles. The summary is as follows:

	Survey Jan. 1, 1955	Old Bases 1951 Still Used for Nov. 1954
Payroll Charges:		
Purchasing	\$ 0	\$ 63
Industrial relations	117	117
Accounting and general office	127 1,058.00	289
Sub-total	1,476	569
Payroll taxes and insurance	118	60
Office rent	127	127
Miscellaneous	75	75
	<u>\$ 1,796</u> 1,679.00	<u>\$ 831</u>

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Schedule .

**RECOMMENDED ALLOCATION PLAN FOR VARIOUS CHARGES
BY STAUFFER OF NEVADA TO MONTROSE TO SUPERSEDE
PRESENT PLAN WHICH HAS BEEN IN EFFECT SINCE 1/1/53**

1. Salaried PayrollAdministrative

Newell	-	6%	0
Schreck	-	5%	5
Edwards	-	30%	15
Anderson	-	10%	10

Maintenance

Jeffrey	-	10%	7
Müller	-	10%	7
Lloyd	-	15%	10
Dee	-	17%	10
Gentner	-	10%	10
ISCM			10

Accounting

Henry	-	5%	
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Personnel

MacNeil	-	18%	12
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Charges for Supervisory and General Personnel \$ 797 252.00

Traffic

Green	-	25%	33
Bernard	-	20%	33
Block	-	25%	33
Kenny			33

Timekeeping & Payroll

McMillan	-	45%	16
Cole	-	15%	16

Accounting

Heber	-	16%	6
Bracken	-	2%	1

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Steno-Mail-Teletype-Ditto Processing and related

McCaw	-	10%	6
Graham	-	2%	19
Buck	-	4%	5
Donald			10

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1. Salaried Payroll: (cont'd)

Maintenance Clerical (Work Orders)

Stuffer	155
Marsh	155

Personnel

Lata	305.24
------	--------

Charges for Office and Clerical Personnel

450.00

31,010.00

10% for payroll taxes, various insurance costs, etc.
(an agreed percentage also used for Los Angeles)

3,101.00

16.5

34,127.50

15.29

2. Automobile Expense

Stauffer-Nevada Auto Expense is comprised of the following items:

- 1) Rental Paid for cars and trucks leased from California Rent Car.
- 2) Maintenance and Depreciation of Stauffer-owned car and trucks
- 3) Gasoline, oil, lubrication and tire repairs for both items 1) and 2).

Charges from our books for the 11 months period January 1, 1954 to November 10, 1954, are as follows:

a) Rental	<u>\$4,030.96</u>	9320.
b) Gasoline, oil and repairs	<u>6,009.12</u>	9037.
c) Depreciation	<u>1,017.66</u>	1872.
	<u>\$11,057.74</u>	20229.

Average for 1 month \$1,112.00

To this average we apply what to us seems the most equitable basis for distribution - dollar value ratio of the Montrose-Nevada payroll to the total Nevada payroll which consists of Stauffer-Nevada Salaried and Plant payrolls and Montrose-Nevada Salaried and Plant payrolls. For the 11 months' period described above, this ratio was

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\$ 108,400.38 (Montrose)

\$1,304,217.38 (Montrose & Stauffer)

15% of \$1,342.00 provides an average monthly charge of \$201.30 as Montrose's share.

3. Donations & Employee Activities

Donations made by Stauffer Nevada during 11 months 1954 were:

Nevada State Federation of Labor (Program State Convention)	\$ 85.00
1954 Artemesia (Univ. of Nevada Yearbook)	30.00
Boy Scouts	250.00
Community Chest	380.00
Henderson Police Benevolent Ass'n (Youth Center)	60.00
Red Cross	300.00
Nevada Peace Officers Ass'n	50.00
Las Vegas Police Protective Ass'n	125.00
Basic High School Ass'n	25.00
Stauffer-Nevada Men's Bowling League	150.00
Stauffer-Nevada Softball Team	300.00
Industrial Softball Ass'n	25.00
Safety Contests and Material	672.34
	<u>\$2,072.34</u>

Average for 1 month - \$188.40

Basis - Dollar value ratio of payroll 11 months - 15%
15% of \$188.40 = \$28.26 Montrose's share

4. Legal Fees

Mr. C. Jay Parkinson is attorney on retainer specializing in labor negotiations and problems. Previous reports included charge for Mr. T. Gregory who is no longer retained.

Retainer Fee plus expenses 12 months 1954 \$3,108.72

Average for 1 month - \$259.06

Basis - Dollar value ratio of payroll 12 months - 10% 167.

10% of \$259.06 = \$25.91 Montrose's share

5. Fire Protection

(Montrose was billed to us by Davis Management, Inc. Our Engineer Dept. carefully computed Montrose's protected area).

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	<u>Sq. Footage</u>
Montrose Area including Acid Loading	51,163
Benzene Storage 174' x 133.5'	23,185
Alcohol Storage 80' x 86'	6,880
HCl Storage Tanks 52' x 59'	3,068
Poly Storage 150' x 150'	22,500
Synthetic Plant 17' x 22'	
17' x 28'	
17' x 17'	1,139
Montrose Office Bldg. 20' x 60'	1,200
Storage in Warehouse 20' x 20'	400
Storage in old Office Bldg. - 15% of total 3,893	578
MCB Storage at Hercules 80' x 150'	12,000
Warehouse at Hercules 100' x 120' - (12,000 sq. ft.) 1/2 occupied by Montrose 100' x 60'	<u>6,000</u>
Total square footage	128,113

~~128,113 square feet of protected area multiplied by current rate of \$1.50 per thousand square feet provides a figure of \$442.40 as Montrose's monthly cost.~~ *See below*

The rate from BMI has increased from \$1.50 in 1953. Also, the total square footage of Montrose has increased from 76,412 square feet used in 1953.

5.3 Removal of Refuse, Garbage and waste

¹²⁵
12 months - 1964 Costs - ³³⁴⁷ \$1,013.00

²⁷⁹
Average Cost for 1 month - \$84.42

Basis - Dollar Value Ratio Payrolls ¹² months - 10%

¹⁶
15% of \$124.00 = ²⁷⁹ \$38.10 Montrose share ¹⁶⁷ \$45

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Sewage Disposal

out transferred

Redistribution of charges to us by B.M.I. based on relative number of employees.

\$327.00 for 11 months
30.00 average cost for 1 month
15% of \$30.00 = \$4.50 Montrose share

Postage

11 months total postage costs - ¹⁵⁰⁷ \$1,498.00

Average cost 1 month - ¹⁵¹ \$134.00
~~15% of \$134.00 = \$20.00~~

Equipment Usage

This item discussed by Messrs. ~~Cummings, Kemell, Hays, Edwards~~ and Schreck and it was concluded that the method of computing this cost be the same as outlined or agreed upon by Dr. Rothberg and Mr. John Stauffer in 1953.

~~Estimated current valuation \$50,000 being depreciated over 5-year period - \$10,000.00 per year. 15% of \$10,000.00 is \$1,500.00 per year which represents Montrose's yearly share or \$125.00 per month. Dr. Rothberg agreed to a \$150.00 per month charge on this. however.~~

Stores Expense

This charge is based on the dollar value of stores withdrawals made by Montrose from Stauffer as compared to the total dollar value of all Stores Withdrawals.

Total Stores Withdrawals from Stauffer Stores		
January 1 - November 30, 1954	\$204,739	3
Total Stores Withdrawn from Montrose Stores		
by Montrose January 1 - November 30	<u>34,336</u>	5
TOTAL STORES WITHDRAWALS	\$239,075	35
Total Stores Withdrawals by Montrose		
11 months January 1 - November 30, 1954		
From Stauffer Stores	\$23,310	3
From Montrose Stores	<u>34,336</u>	5
	\$57,646	7

Per cent ratio Montrose to Total - 20% 3/7.

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8. Stores Expense (cont'd)

Total Expense to Operate Stores Department

Total Expense January - November incl.	839,944
Average monthly expense	81,634
Add monthly Personal Property Tax	300
Average Total Monthly Expense	81,934
Per cent ratio Montrose to total (23%) - 1954	9,000

9. Janitorial Services

The time of our janitor to service Montrose area has increased from 1 hour to 3 1/2 hours.

Average of 3 1/2 hours per day for 6 days each week -

$$312 \times 3 \frac{1}{2} \text{ hrs.} \times \frac{1805}{1000} = 18,892 \div 12 = 1,574 \text{ per mo.}$$

10. General Works

Consists of General Yard and Road Maintenance, services of 4 Plant Protection Employees (watchmen), Maintenance of all common water, power and sewer lines and all General Shop Work not directly allocable to operating departments.

Maintenance Labor - 1954 (12 months)	\$46,963.45
Maintenance Materials (from Stores) (12 months)	13,296.34
	\$60,259.79

Based on 2 sample months August and December, 1954, percentage of total expenditures above which can be directly allocated to Stauffer and are not facilities from which Montrose benefits

43.13%

Deduct 43.13% of \$60,259.79 (25,990.05)	\$34,269.74
Add Net Total of 1954 Safety Accounts	1,881.74
Balance of remaining General Works Charges	21,632.07

\$37,783.55

Average common facility charge per month	4,815.30
Montrose share at 15% of \$4,815.30	722.30

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10. Office and Laboratory Facilities

Determined on a square foot basis of common office and Laboratory space consisting of utilities and janitorial services only at 5¢ per square foot.

Common office and Lab. space - 5,390 sq. ft. @ 5¢ per square foot - 269.50
 - 10% of \$269.70 = 26.97
 Add L. J. Wurser's office - 156 sq. ft. @ 5¢ per square foot 7.80

12
11. Organic Laboratory Supplies and Maintenance

Based on distribution of Organic Laboratory Employees Time for 6 months, 1954, July through December - *Equals 337.*

July	37.34%
August	36.64
September	44.12
October	35.34
November	31.00
December	28.20
	<u>222.76 ÷ 6 = 37.13%</u>

Organic Laboratory Supplies (common usage) 12 months 9240.30

Average for 1 month 770.03
 37.13% of \$770.03 = 287.00

Organic Laboratory Supplies purchased exclusively for Montrose Analytes - 11 months 869.83

Average for 1 month 79.08

Montrose monthly share of Organic Laboratory supplies 107.48

39.00

68.48

337.00

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Computation of additional taxes on Montrose improvements at Torrance paid by Stauffer and not yet charged to Montrose. For authority for these retroactive charges reference is made to paragraph 2 of page 2 of Lease dated August 16, 1946, Stauffer and Montrose. Further reference to assessed values under Los Angeles County Code 304,014/05.

Description	Assessed Valuation	Rate	Tax	
Canopy 17 x 60 C.I. 1954	\$ 710	\$7.0089	\$ 49.76	\$ 49.76
Locker room 28 x 64 1953	3,730	6.8264	254.62	
1954	3,730	7.0089	<u>260.73</u>	515.35
Concrete wall 1952	80	6.7280	5.38	
1953	80	6.8264	5.46	
1954	80	7.0089	<u>5.61</u>	16.45
Rubbish tin 1952	40	6.7280	2.69	
1953	40	6.8264	2.73	
1954	40	7.0089	<u>2.80</u>	8.22
Warehouse 72 x 100 C.I. with loading dock 1950	6,900	6.8130	470.10	
1951	6,900	6.4822	447.27	
1952	6,900	6.7280	464.23	
1953	6,900	6.8264	471.02	
1954	6,900	7.0089	<u>483.61</u>	2,336.23
Meter House cement block		500.744		
1950	240	6.8130	16.35	
1951	240	6.4822	15.56	
1952	240	6.7280	16.15	
1953	240	6.8264	16.38	
1954	240	7.0089	<u>16.82</u>	81.26

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1949	50	50	50	
1950	50	50	50	
1951	50	50	50	
1952	50	50	50	
1953	50	50	50	
1954	50	50	50	

Table 2 - Monitors				
1949	320	6.4577	59.41	
1950	320	6.8130	62.68	
1951	320	6.4822	59.64	
1952	320	6.7280	61.90	
1953	320	6.8264	62.80	
1954	320	7.0089	64.48	370.91

Locker room (On-base)				
1949	1,100	6.4577	71.03	
1950	1,100	6.8130	74.94	
1951	1,100	6.4822	71.30	
1952	1,100	6.7280	74.01	
1953	1,100	6.8264	75.09	
1954	1,100	7.0089	77.10	443.47

Tanks (4) H ₂ SO ₄				
1949	2,080	6.4577	134.32	
1950	2,080	6.8130	141.71	
1951	2,080	6.4822	134.24	
1952	2,080	6.7280	139.94	
1953	2,080	6.8264	141.99	
1954	2,080	7.0089	145.79	838.58

Tax chargeable to Montrose Chemical Corporation
of California

\$4,853.74

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Schedule 2

MATTER OF TAX CLAUSE IN PAGE 2 PARAGRAPH 2 OF LEASE
8/16/46 STAUFFER AND MONTROSE COVERING TORRANCE PRO-
PERTY. OPINION OF I. C. MACDOUGALL, JR. ON 1/27/55
RENDERED TO L. J. JENNINGS AND E. G. CARLSON

The lease dated August 16, 1946, between Stauffer as lessor and Montrose Chemical Corporation of California as lessee contains the following language relative to taxes assessed against the leased property.

"Lessor agrees to pay all taxes on real and personal property except that Lessee, shall, and agrees to, pay all taxes on any and all improvements installed, erected and made by it on the leased premises."

It has become necessary to determine the extent to which this clause obligates Montrose to pay taxes on assets which were on the property prior to the lease but have since been repaired or reconstructed by Montrose. This problem would appear to be governed by the following principles:

1. If the repair or reconstruction is merely to restore dilapidation caused by ordinary wear and tear and does not substantially increase the value of the asset, the taxes on such asset should continue to be paid in full by Stauffer, in accordance with the first clause of the above-quoted language.

2. If, however, the repair or reconstruction goes beyond mere maintenance or restoration of wear and tear, so that the value of the asset is materially increased beyond its value at the commencement of the lease, it would seem that such increased value constitutes an "improvement" by the lessee, as contemplated in the second clause of the quoted provision. Hence, where the assessed value of such an asset has been increased by reason of such an improvement the tax attributable to such increase should be charged to Montrose.

3. In determining whether the value of an asset has been materially increased, the accounting treatment by Montrose may be considered but should not be conclusive. The mere fact that Montrose may have treated certain costs as current expenses rather than capital charges does not necessarily exclude such costs from the value of the asset for property tax purposes. Hence, the test is whether the assessed value has been increased by reason of the improvement, regardless whether the increased value appears as such on the Montrose books.

For example, the assessed value of certain water mains, sewer mains and fire protection lines was increased from \$940 in 1950 to \$2940 in 1951 and subsequent years as a result of substantial rehabilitation work done by Montrose. The tax attributable to the first \$940 of assessed value should continue to be for Stauffer's account, but the tax attributable to the additional \$2000 of assessed value would seem to be for the account of Montrose, regardless of the treatment of this item on their books.

The above are, of course, mere statements of the yardsticks by which the Montrose tax liability would appear to be measured. It would seem that their particular application should be undertaken on an asset-by-asset basis by someone familiar with the facts and circumstances of each case.

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33-010-077-77

RECOMMENDED ALLOCATION PLAN FOR VARIOUS CHARGES
BY STAUFFER CHEMICAL COMPANY TO MONTROSE

	<u>Per Cent</u>	<u>Amount</u>
<u>Payroll Charges:</u>		
1. Purchasing Department -		
Total payroll per month times		
percentage applicable to Montrose.	10.0	\$ 158.00
2. Industrial Relations -		
Total payroll per month times		
percentage applicable to Montrose.		
This percentage is based on number		
of employees of Montrose as compared		
to total and is revised as necessary.	16.0	127.00
3. Accounting & General Office -		
Machine Bookkeeper		
E. Kaplinski	80.0	
Typist		
C. Yankee	10.0	
Typist Clerk		
V. Downey	20.0	
Comptometer Operator		
C. Yankee	20.0	
The above percentages of time		
worked for Montrose were		
estimated by Mr. Hunter.		
Payroll machine operator and payroll		
clerk - E. Smith and C. Green.	16.0	
Percentage based on number of		
employees.		
Supervision - T. V. Hunter	11.5	
Total of above group		\$575.00
Salaried Payroll - based on number		
of salaried employees.	5.5	93.00
Traffic -		
Estimate by D. Clegg		158.00
Sales -		
L. Isler	25.0)	
J. Dornell - Secretary	12.5)	197.00
PHX Operator - G. Kines	10.0	<u>35.00</u>
Estimate by Mr. Hunter		
	500.747	
Total Accounting & General Office		<u>1,068.00</u>
Total Payroll Charges.		<u>\$2,343.00</u>

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	<u>Amount</u>
Total Payroll Charges from Page 1	\$1,343.00
4. 10% for payroll taxes, various insurance costs, etc. (An agreed percentage also used for Nevada.)	134.00
5. Office Rent - Percentage of monthly rental based on estimated area used.	127.00
6. Miscellaneous - Estimated amount to cover depreciation on office machines, accounting, stationery, local telephone calls, etc.	75.00
Total Allocated Charges	<u>\$1,679.00</u>

Effective September 1, 1955.

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